FINANCIAL MANAGEMENT

Actions Needed to Strengthen GAO's Purchase Card Program Controls

Accessible Version

May 5, 2015

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Objective

This report addresses the extent to which GAO maintained effective internal controls for preventing, detecting, and responding to potential misuse, waste, and abuse of GAO purchase cards.

What OIG Found

Our review of GAO's purchase card program found that GAO had developed and implemented policy and procedures that generally address key requirements of applicable laws and regulations. Further, GAO maintained adequate documentation to support purchases made. However, opportunities exist to enhance controls. Specifically, we found that GAO's

- policy and procedures contained gaps in key areas, such as risk management; program evaluation; and needs determination that diminish program effectiveness and efficiency.

- process for monitoring and tracking purchase card training was not effective in ensuring the proficiency and competency of program participants.

- execution of key controls, such as approvals and funds verification, was not substantiated by transaction documentation.

Improvements in GAO's purchase card program could enhance its ability to efficiently and effectively prevent, identify, and address compliance issues. In response to our work, GAO initiated efforts to strengthen its purchase card policy and procedural guidance and monitoring of program compliance.

What OIG Recommends

We are making three recommendations for the Comptroller General to direct the Acquisition Management Director to revise GAO's purchase card policy and procedures to address key requirements; and develop, document, and implement a process to efficiently identify and monitor compliance with training requirements. GAO agreed with our recommendations and has taken or initiated efforts to address them.

May 5, 2015

Memorandum For: Gene L. Dodaro
Comptroller General of the United States

From: Adam R. Trzeciak
Inspector General

Subject: Transmittal of Office of Inspector General (OIG) Audit Report

Attached for your information is our report, *Financial Management: Actions Needed to Strengthen GAO's Purchase Card Program Controls* (OIG-15-2). The audit objective was to evaluate the extent to which GAO maintained effective internal controls for preventing, detecting, and responding to potential misuse, waste, and abuse of GAO purchase cards.

Our review found that GAO had developed and implemented policy and procedures for its purchase card program that generally address key requirements of applicable laws and regulations. Further, GAO maintained adequate documentation to support purchases made. However, we identified areas where GAO could enhance its purchase card policy and procedural guidance and monitoring of program compliance. Without improvements, GAO has an increased financial related risk within its purchase card program. The report contains three recommendations aimed at strengthening GAO's purchase card program controls. GAO agreed with our recommendations, and has taken or initiated efforts to strengthen its controls. The agency also provided technical comments that we incorporated, as appropriate. Management comments are included in Appendix II of our report. Actions taken in response to our recommendations are expected to be reported to our office within 60 days.

We are sending copies of this report to the other members of GAO's Executive Committee, GAO's Audit Advisory Committee, and other managers with purchase card program responsibilities. The report is also available on the GAO website at http://www.gao.gov/about/workforce/ig.html.

If you have questions about this report, please contact me at (202) 512-5748 or trzeciaka@gao.gov.

Attachment

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Abbreviations

APC   Agency Program Coordinator

GSA   General Services Administration

OIG   Office of Inspector General

OMB   Office of Management and Budget

Introduction

In fiscal years 2012 through 2014, GAO processed an average of $2 million a year in purchase card transactions to acquire goods and services directly from vendors to support agency needs. Purchase cards are intended to save agencies time and administrative costs by streamlining the purchase process. Purchase cards also help agencies fulfill other objectives, such as providing opportunities for small and disadvantaged businesses to support government acquisition needs. GAO has established a framework of policy and procedures for managing its purchase card program. Well designed and implemented controls, including monitoring, can improve the effectiveness and efficiency of routine acquisition processes and ensure that purchases are valid and consistent with management objectives.

Objective, Scope, and Methodology

This report addresses the extent to which GAO maintained effective internal controls for preventing, detecting, and responding to potential misuse, waste, and abuse of GAO purchase cards. To achieve our audit objective, we reviewed GAO policy and procedures to ensure that they cover relevant key requirements for initiating, processing, approving, and monitoring purchase card transactions. We also selected a random sample of purchase card transactions and tested control activities in GAO's purchase card program to determine whether they provided reasonable assurance that transactions are properly authorized, supported, recorded, and approved throughout the purchase card process. In addition, we evaluated GAO's compliance with the purchase card training requirements for cardholders and approving officials, and interviewed selected GAO cardholders and approving officials. Appendix I provides further details on our scope and methodology.

We conducted this performance audit from March 2013 through May 2015[1] in accordance with generally accepted government auditing standards (GAGAS), except for the quality control and assurance standard requiring an external peer review of our audit organization every three years. This exception did not affect the planning or performance of our audit. The Office of Inspector General is scheduled for a peer review in fiscal year 2015. GAGAS requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

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[1]Due to office priorities, we suspended our audit work from November 2013 until June 2014.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Background

The government purchase card program was created as a way for agencies to streamline federal acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. However, audits of federal agencies have found that weak purchase card program controls have resulted in waste, fraud, and abuse.[2] In response, Congress enacted the Government Charge Card Abuse Prevention Act of 2012,[3] which requires heads of executive agencies that issue and use purchase cards to "establish and maintain safeguards and internal controls" over their usage. *Standards for Internal Control in the Federal Government* (the Green Book) provides the overall framework for establishing and maintaining internal control across the federal government and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement.[4] Key controls identified in the federal internal control standards are incorporated into the requirements established by the Government Charge Card Abuse and Prevention Act of 2012.

The *Federal Acquisition Regulation* (FAR)[5] designates the purchase card as the preferred method for making micropurchases.[6] The FAR establishes criteria for using purchase cards to place orders and make payments. In addition, OMB Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, provides minimum requirements and suggested best practices for government purchase card programs.[7]

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[2]GAO, *Governmentwide Purchase Cards: Actions Needed to Strengthen Internal Controls to Reduce Fraudulent, Improper, and Abusive Purchases*, GAO-08-333 (Washington, D.C.: March 14, 2008); Department of the Treasury Office of Inspector General for Tax Administration, *Controls Over the Purchase Card Program Were Not Effective in Ensuring Appropriate Use*, Report Number 2011-10-075 (Washington, D.C.: August 31, 2011); and Department of Commerce Office of Inspector General, *Internal Controls for Purchase Card Transactions Need to Be Strengthened*, Report Number OIG-13-025-A (Washington, D.C.: May 2, 2013).

[3]Public Law 112-194 (October 5, 2012).

[4]GAO, Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

[5]GAO procurement policy and guidelines follow the FAR, although the FAR does not apply to GAO. GAO Order 0625.1 (May 7, 2009).

[6]See 48 C.F.R. § 13.201(b). The FAR micropurchase threshold was raised from $2,500 to $3,000 in 2006. Purchases under $3,000 are considered micropurchases and are exempt from the requirement to obtain competitive quotes or process a sole source justification. FAR 13.202; *see also* 41 U.S.C. §1902(a).

[7]OMB Circular No. A-123, Appendix B, *Improving the Management of Government Charge Card Programs* (January 15, 2009).

Those requirements include the establishment of policies and procedures, identification of agency officials' roles and responsibilities, training, and internal control activities to ensure that all charges and payments are authorized, accurate, and timely. As a legislative branch agency, GAO is not required to use OMB circulars, but as a matter of policy, GAO has indicated that it generally would assess and report on the effectiveness of GAO's internal controls in accordance with the principles of OMB Circular No. A-123.[8]

GAO offices use purchase cards to purchase goods and services directly from vendors to support agency needs. GAO's Acquisition Management (AM) office is responsible for GAO's purchase card program. To ensure compliance with the requirements in the FAR and OMB Circular A-123, Appendix B, GAO issued GAO Order 0312.1, *Government Accountability Office Purchase Program*,[9] and the *Purchase Card Program Desk Reference Manual*[10] to provide policy and procedural guidance to staff. There are four key positions within GAO's purchase card program that are crucial to ensuring compliance with purchase card requirements. These positions are:

Cardholder

Cardholders are responsible for using the purchase card to make approved purchases of goods and services. In processing purchase card transactions, cardholders are responsible for maintaining supporting documentation, ensuring the availability of funds before making a purchase, recording purchase information in their purchase log, and reconciling their purchase card transactions with the electronic banking system. GAO had a total of 48 cardholders as of October 2014.

Budget Representative

Budget representatives are responsible for validating that sufficient funding is available for individual purchase card transactions. The budget representatives validate the availability of funds before the cardholder makes the purchase by signing off on the applicable GAO form or via an e-mail reply to the cardholder.

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[8]GAO Order 0201.3*, Management's Responsibility for Internal Controls* (Aug. 23, 2006).

[9]GAO *Order 0312.1, Government Accountability Office Purchase Card Program (September 2006)*.

[10]*GAO, Desk Reference Manual: GAO Purchase Card Program (February 2011)*.

Approving Official

Approving officials are responsible for the review and approval of individual purchase card transactions in the electronic banking system. GAO had a total of 31 approving officials as of October 2014.

Agency Program Coordinator

GAO's Agency Program Coordinator (APC) and alternate APC are acquisition management office personnel responsible for training GAO purchase card program participants (cardholders and approving officials), and evaluating and monitoring the program to ensure compliance with GAO policy and procedural guidance.

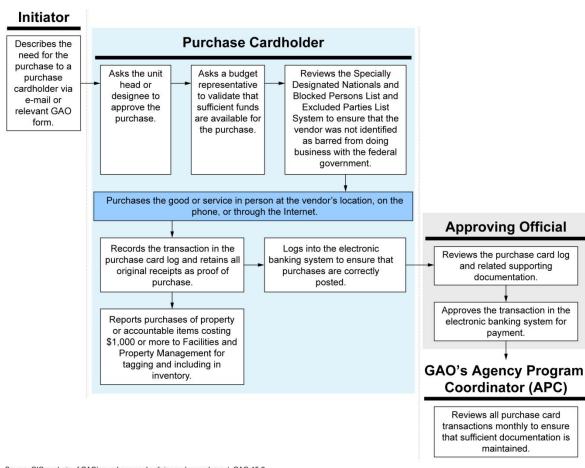Figure 1 provides an overview of GAO's purchase card processes.

Figure 1: Overview of GAO's Purchase Card Processes

Initiator

Describes the need for the purchase to a purchase cardholder via e-mail or relevant GAO form.

Purchase Cardholder

Asks the unit head or designee to approve the purchase.

Asks a budget representative to validate that sufficient funds are available for the purchase.

Reviews the Specially Designated Nationals and Blocked Persons List and Excluded Parties List System to ensure that the vendor was not identified as barred from doing business with the federal government.

Purchases the good or service in person at the vendor's location, on the phone, or through the Internet.

Records the transaction in the purchase card log and retains all original receipts as proof of purchase.

Logs into the electronic banking system to ensure that purchases are correctly posted.

Reports purchases of property or accountable items costing $1,000 or more to Facilities and Property Management for tagging and including in inventory.

Approving Official

Reviews the purchase card log and related supporting documentation.

Approves the transaction in the electronic banking system for payment.

GAO's Agency Program Coordinator (APC)

Reviews all purchase card transactions monthly to ensure that sufficient documentation is maintained.

Source: OIG analysis of GAO's purchase card policies and procedures | GAO-15-2

OIG-15-2 GAO Purchase Card Program

Gaps in GAO Purchase Card Program Policy and Procedures, Training, and Control Activities Increase Risk

GAO purchase card policy and procedures generally addressed key requirements of applicable federal purchase card laws and regulations. However, we found gaps in certain areas of GAO's purchase card policy and procedures—such as risk management—that reduce program efficiency and increase risks. We also found that GAO did not have a system in place to ensure compliance with training requirements. Policy and procedural gaps and an ineffective process for identifying and addressing training requirements reduces GAO's assurance that key personnel have the skills, knowledge and guidance they need to support purchases consistent with policy, laws, and regulations. Further, we found deficiencies in transaction documentation, monitoring, and other key control activities that put GAO at increased risk of purchases occurring without authorization, management knowledge, or sufficient funding. In response to our work, GAO initiated efforts to strengthen its purchase card guidance and monitoring of program compliance. For example, GAO issued a *Charge Card Management Plan[11]* to program participants on April 22, 2015 in an effort to supplement existing policy and procedures and to begin addressing the gaps we communicated to GAO during our audit and identified in our report. The APC and alternate APC stated that they intend to issue standard operating procedures to provide staff detailed guidance regarding their roles and responsibilities for the specific areas, including risk management controls and activities, identified in the plan. In addition, the APC has started recording training information electronically in order to improve its ability to track initial and refresher training of program participants.

Policy and Procedural Gaps Reduce Efficiency and Increase Program Risks

According to the *Standards for Internal Control in the Federal Government*, internal controls comprise the plans, methods, and procedures used to meet an organization's missions, goals, and objectives.[12] To ensure that internal controls are an integral part of operations, management is responsible for developing detailed policies, procedures, and

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[11]GAO, Financial Management and Business Operations, *Charge Card Management Plan, Purchase Card Program* (January 1, 2015). GAO issued the *Charge Card Management Plan* to the purchase card program participants on April 22, 2015.

[12]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

practices. Our review of GAO's purchase card program policy and procedures[13] found that they were outdated but generally addressed key requirements stated in applicable laws and regulations. However, we identified gaps in GAO's existing purchase card policy and procedures that could be updated and integrated to improve program efficiency. These areas are risk management; program evaluation; needs determinations; and performance evaluation and feedback.

Risk management. GAO's policy and procedures do not describe a process for incorporating the potential risk of fraud, waste, or misuse into the design and implementation of the key controls, including monitoring activities and training, as required by OMB Circular A-123, Appendix B.[14] As a result, GAO's APC had little procedural guidance or training on how to use automated tools available through the electronic banking system or those that other federal purchase card programs use. These tools could be used to target program monitoring and oversight on high-risk transactions such as weekend purchases, routinely late approvals, or purchases of items that are typically purchased centrally.

GAO performed the same monitoring procedures on all purchase card transactions (100 percent review) regardless of the dollar amount or the presence of other risk attributes. Specifically, the APC reviewed all the purchase card transactions posted into the electronic banking system each month, including transactions with low dollar amounts. Out of the 3,166 purchase card transactions GAO processed in fiscal year 2012, 439 (14 percent) were related to purchases less than $50. Noncompliance with key controls, including purchase card log documentation, fund verification, and purchase approvals found in our random sample of purchase card transactions, raises questions regarding the effectiveness of GAO's 100 percent review.

In addition, the use of 100 percent monitoring of transactions leaves the APC with little time to monitor or assess other aspects of the program including compliance with training requirements and purchase cardholder limits. Implementing procedures that reflect a risk-based approach rather than the current one-size-fits all approach could help GAO target

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[13]GAO purchase card policy and procedures consist of GAO *Order 0312.1, Government Accountability Office Purchase Card Program (September 2006); GAO's Desk Reference Manual: GAO Purchase Card Program (February 2011);* and the *Standard Operating Procedures for Purchase Card Monthly Audits.*

[14]OMB Circular No. A-123, Appendix B, *Improving the Management of Government Charge Card Programs* (January 15, 2009).

its oversight and monitoring resources on high-risk purchase card transactions. Under a risk-based approach, indicators such as transaction type, dollar value, and cardholder's or approving official's prior history and experience could be used to identify high-risk transactions and trigger a higher level of oversight and scrutiny. To strengthen its monitoring process, in April 2014, GAO began using automated tools to enhance its ability to apply a risk-based approach to monitoring its purchase card transactions. While GAO notes the use of the automated tools in its *Charge Card Management Plan*, it has not yet incorporated the use of these tools into its policy or procedures.

Program Evaluations. GAO's policy and procedures place primary responsibility with the APC for overseeing and monitoring the purchase card program, and with the approving officials for final approval of purchase card invoices. Consistent with GAO policy and procedures, the APC performs monthly reviews to ensure that the processed purchase card transactions contain the necessary supporting documentation. However, we found that because the APC did not have procedural guidance or training, the APC did not appear to be reviewing other key components of the purchase card program, such as compliance with training requirements and purchase limits set out in OMB Circular A-123, Appendix B.[15]

GAO's purchase card policy and procedures provide the APC with some guidance on how to perform monthly purchase card transaction reviews; however, they do not describe how to evaluate the program to identify and address areas where improvements are needed, or how and when issues should be communicated to GAO management. For example, we found that while the APC acknowledged instances of consistent noncompliance by certain cardholders, we saw no indication that actions were taken to identify and provide needed refresher training to the cardholder or to communicate noncompliance issues to GAO management.

In addition, GAO's policy and procedures provided no guidance to the APC on how or when to assess the reasonableness of a cardholder's purchase card limit. Reviewing purchase limits requires management to evaluate existing and continuing operational needs and analyze cardholders' actual monthly and average charges. Because there is no guidance on this, a 2012 internal review—not APC monitoring procedures—found

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[15]OMB Circular No. A-123, Appendix B, *Improving the Management of Government Charge Card Programs* (January 15, 2009).

instances where cardholder annual purchase limits were too high. The review found, for example, one cardholder who had a $700,000 annual limit but had not made any purchases at the time of GAO's internal review. Following the review, GAO's acquisition managers adjusted the cardholder's annual purchase limits and stated in their written response to our draft report that the individual was no longer a cardholder.

Needs Determination for Purchase Cardholders. GAO's purchase card policy and procedures do not include requirements for the APC to periodically determine whether the agency has a need for a specific number of cardholders. Performing periodic reviews of the need or justification for the number of purchase cardholders minimizes GAO's financial risk by controlling its population of purchase cards. A 2012 internal review of the purchase card program found that GAO did not have sufficient justification for the number of individual purchase cardholders. In response to the review, GAO's acquisition management reviewed the number of purchase card accounts and justified the need for each card. Good program and risk management include efforts to limit the number of purchase cards to what is required to meet the needs of the agency. Without a documented and implemented process and procedures for reviewing whether the number of purchase cardholders is justified, GAO does not have assurance that such review is periodically performed. This may increase the agency's exposure to financial risk.

Performance Evaluation and Feedback. GAO's purchase card policy and procedures do not provide guidance regarding how the APC should evaluate individual performances and to whom and when performance feedback should be provided. The Green Book states that performance evaluation and feedback should be designed to help employees understand the connection between their performance and the organization's success.[16] Although, most of the cardholders and approving officials we interviewed indicated that their roles and responsibilities for the purchase card program are included in their performance expectations and appraisals, we found no indication that feedback occurred regarding the performance of their purchase card program duties, particularly for those cardholders with noncompliance issues that occurred during the performance period. For example, although the APC indicated that there were cardholders and approving officials who required frequent reminders and prompts to perform their duties, noncompliance issues were not reported to their supervisors for consideration during feedback and

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[16]GAO/AIMD-00-21.3.1.

performance evaluation meetings. It is common practice within GAO mission teams for those most knowledgeable of an individual's performance to provide input to the GAO manager responsible for the individual's performance evaluation. A similar practice would be beneficial, if implemented, for purchase card program participants. Furthermore, we found no indication that remedial training was offered in response to compliance issues identified during the APC's monthly review of purchase card transactions. The lack of a documented and effective process for providing performance feedback may lead to inconsistencies in identifying individuals in need of refresher training.

Finally, although GAO's purchase card policy includes a requirement to suspend cardholder accounts for noncompliance, its suspension procedures do not provide the APC with sufficient guidance regarding the type of noncompliance that should result in suspension. As a result, a 2014 internal review of GAO's purchase card program found that GAO's suspension procedures for cardholders was not enforced. GAO procedures require suspension of a cardholder's account if noncompliance is not addressed within five business days from the date of receipt of a *Notice of Suspension Memorandum*. If suspensions are not enforced, cardholders and approving officials may lack the feedback and incentive needed to ensure compliance.

In response to our work, GAO issued its *Charge Card Management Plan* to program participants on April 22, 2015 to supplement existing policy and procedures and to begin addressing the gaps we communicated to GAO during our audit and identified in our report. To implement the plan and provide program participants with guidance (i.e., to communicate the "who, what, when, where, how, and why") needed to effectively fulfill their roles and responsibilities for implementing GAO policy, GAO is in the process of developing standard operating procedures.

Monitoring is not Effective in Ensuring Compliance with Purchase Card Training Requirements and Participant Competency

Ongoing monitoring of program requirements in the course of normal operations is intended to provide management with a means of identifying and mitigating risks before they result in serious noncompliance issues. GAO policy requires all purchase card program participants to take purchase card training prior to their appointment, and refresher training a minimum of every three years. However, we found that GAO lacked an effective process for ensuring compliance with training requirements.

Specifically, we found that although the APC plays a significant role in monitoring GAO's purchase card program and providing training to approving officials and cardholders, the APC did not receive refresher training, as required by GAO policy. In addition, we found that although the APC has oversight and monitoring responsibilities for the program, the APC did not have a mechanism to effectively and efficiently track and monitor program participant compliance with training requirements. The APC relied on hardcopy files of individual training certificates or personal recollection as to when the last training session was held to determine when refresher training would be provided. Reliance on individual hardcopy certificates or personal recollection is not reflective of an active program monitoring process consistent with best practices.[17] Based on our review, we determined that the APC's training files were incomplete, consisting mainly of individual training certificates and sign-in sheets, and did not provide a collective record or a summary status of program participant training. For example, at the start of our review, we found that the APC maintained training files for only 6 of 52 (12 percent) active cardholders and 4 of 35 (11 percent) active approving officials. According to the APC, many of the training certificates were misplaced during an office move.

In response to our work, GAO has taken steps to ensure that all program participants are trained. The APC completed the refresher training in fiscal year 2014. In addition, the APC took actions to improve documentation and began implementing a process to track purchase card training. Specifically, the APC required cardholders and approving officials to complete the purchase card refresher training online through the General Services Administration (GSA) by September 30, 2014, to establish a current baseline of training received. In addition, the APC is providing in-person training to newly assigned GAO cardholders and approving officials. We re-evaluated GAO's training documentation and found that, as of November 2014, GAO had taken steps to improve documentation of training requirement compliance for 41 of 48 (85 percent) active cardholders and 24 of 31(77 percent) active approving officials. Although the APC was able to locate all but one of the outstanding training certificates after our follow-up inspection,[18] the lack of a summary report and available supporting documentation for 14 GAO officials at the time of

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[17]OMB Circular No. A-123, Appendix B, Improving the Management of Government Charge Card Programs (January 15, 2009).

[18]One cardholder was not able to take the required purchase card training due to extended sick leave.

our follow-up is an indication that further tracking and monitoring improvements are needed.

Enhancements may also be needed in GAO's purchase card participant refresher training. Two of the five purchase cardholders interviewed indicated that there is a need for comprehensive purchase card training, and that training should be less generic and more tailored to GAO's purchase card program. A fiscal year 2014 internal review of GAO's purchase card program corroborated these cardholders' views by concluding that the training for purchase cardholders and approving officials needed to be enhanced. To supplement the training, the APC is sending out monthly newsletters to cardholders and approving officials that contain reminders of their responsibilities and program requirements. While these newsletters do not represent formal training, the newsletters are an efficient tool for communicating to GAO's purchase card community at large and reiterating important program requirements.

GAO's APC and the alternate APC acknowledged the need to strengthen GAO's monitoring processes to ensure that cardholders and approving officials comply with the training requirements. To accomplish that goal, they have started electronically recording the date on which a participant (i.e., cardholder or approving official) completes purchase card training. The alternate APC stated that they plan to develop and implement a process to track compliance with the training requirements on a quarterly basis and alert participants of deadlines for completing their mandatory training requirements. After it is developed and fully implemented, GAO intends to document its monitoring process for the purchase card training in its written procedures.

Without adequate processes, procedures, and controls to identify and track training and to ensure compliance with GAO purchase card program participant training requirements, GAO lacks reasonable assurance that these key personnel have the skills and knowledge needed to support purchases consistent with GAO policy and applicable laws and regulations.

Noncompliance Identified in Key Control Activities Increases Risk

Our review of a random sample of 59 purchase card transactions found that purchase card transactions were substantiated. However, we identified areas where stronger internal controls and oversight could better ensure that transactions are authorized, approved, and

documented, and that funding is available. Specifically, we tested purchase card transactions GAO processed during fiscal year 2012 and found the following weaknesses:

- **Purchase card log.** GAO uses purchase card logs to document and enforce management directives requiring transaction authorization and approval, funds verification, and reconciliation. As such, maintaining a complete purchase card log, or comparable support, is a key component of GAO's purchase card program control design. However, we estimate based on our sample that about 17 percent of the purchase card transactions GAO processed in fiscal year 2012 were not recorded in the purchase card log as required by GAO policy and procedures. [19] We found that GAO was unable to substantiate that all cardholders and approving officials in our sample complied with key control activities as outlined in the purchase card log. The lack of completed purchase logs, or easily retrievable supporting documentation, substantiating that procedures were properly followed, not only diminishes the efficiency of oversight efforts intended to ensure that transactions are valid and complete, but it also raises concerns about the effectiveness of approving officials and the APC's oversight and monitoring.

- **Funds verification.** GAO's policy and procedures require purchase cardholders to confirm the availability of funds with a budget representative before making a purchase. Budget officials should validate the availability of funds by signing off on the applicable GAO form or with an e-mail. However, we estimate based on our sample that about 27 percent of the purchase card transactions GAO processed in fiscal year 2012 had no documentation on file to support that the cardholder verified funding availability prior to making a purchase.[20] An internal review of the purchase card program in fiscal year 2014 reported a similar finding. The report stated that acquisition management needed to direct cardholders that the Budget Tracking System (BTS) cannot be used as the only means to verify the availability of funds prior to making a purchase; cardholders must also receive approval from a budget analyst in the budget office. Without adequate internal controls for ensuring

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[19]We are 95 percent confident that between 8.44 and 28.97 percent of GAO's purchase card transactions that occurred in fiscal year 2012 lacked either a purchase card log or other documentation to support compliance with key control activities.

[20]We are 95 percent confident that between 16.36 and 40.27 percent of GAO's purchase card transactions that occurred in fiscal year 2012 lacked documentation to support that the cardholders verified that funding was available to cover the purchases.

the availability of funds, GAO has an increased financial risk within its purchase card program.

- **Purchase approval.** According to the Green Book, transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority, as this is the principal means of assuring that only valid transactions are initiated. However, we estimate based on our sample that about 22 percent of the purchase card transactions GAO processed in fiscal year 2012 have no documentation on file to support that transactions were approved by the appropriate official as required by GAO policy and procedures.[21] Further, over half of the exceptions we found regarding the approval of purchase cards transactions in our sample were related to "blanket approvals." These approvals authorize the cardholder to purchase goods and services from a specific vendor for a full fiscal year. However, blanket approvals do not ensure that the appropriate official validated and approved the need or requirement for the specific goods or services purchased, as required by GAO policy. Without a valid need or requirement for goods or services prior to the purchase, GAO has an increased risk that its purchase cards will be misused or result in wasted resources. GAO's alternate APC indicated that the APC discontinued the use of blanket approvals for purchase cards and has communicated that decision to the different GAO offices.

We believe that these areas of noncompliance with policy and procedures reflect areas where improvements are needed in GAO's purchase card program supervision and oversight, training, and other control activities previously discussed. GAO's APC and alternate APC acknowledged the need to improve the efficiency and effectiveness of the program's guidance to participants and its oversight and monitoring. For example, they stated that additional guidance and training will be provided to the approving officials to reinforce the importance of thoroughly examining the purchase card transactions and the related supporting documentation as part of their routine review and approval process. They also plan to develop an electronic purchase card log prototype to improve the efficiency of the program. The alternate APC stated that the electronic purchase card logs will help improve supporting documentation and streamline the transaction review process,

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[21]We are 95 percent confident that between 12.29 and 34.73 percent of GAO's purchase card transactions that occurred in fiscal year 2012 lacked documentation to support that the purchases were approved by the unit head or appropriate official.

as it will provide a centralized location for all the required documentation for each transaction.

Conclusion

Internal controls that have been designed and implemented well are essential to ensuring that GAO's purchase card program is effectively managed and stewardship of resources is maintained. To reduce the risk of misuse, waste, and abuse, and to ensure that GAO purchase card program participants have and maintain the necessary skills to fulfill their responsibilities, GAO needs to (1) strengthen its policy and procedures to ensure that key government purchase card requirements are addressed, and (2) implement monitoring controls to ensure compliance with the training requirements. Without improvements in key controls, GAO has an increased financial-related risk within its purchase card program.

Recommendations for Executive Action

To help strengthen and improve the efficiency and effectiveness of GAO's purchase card program, we recommend the Comptroller General direct the Acquisition Management Director to take the following three actions:

1. Revise and issue GAO's purchase card policy (GAO Order 0312.1) to incorporate key requirements related to risk management; program evaluation; needs determinations; and performance evaluation and feedback.

2. Revise or develop, and implement, as needed, GAO's purchase card procedural guidance to address

   • how to analyze and focus oversight and monitoring on high-risk transactions or individuals associated with its purchase card program;

   • how to assess whether each purchase cardholder has a need for the purchase card; and

   • when and how performance evaluation results should be documented and communicated to GAO management.

3. Develop, document, and implement a process to

   • efficiently identify and monitor compliance with purchase card training requirements, and

   • strengthen refresher training through an emphasis on existing or newly implemented policy and procedures intended to identify, prevent, and detect deficiencies found through monitoring and other assessment activities.

Agency Comments and Our Evaluation

The Inspector General provided GAO with a draft of this report for review and comment. In its written comments, reprinted in appendix II, GAO agreed with our recommendations. The agency also provided technical comments that we incorporated, as appropriate.

In its response to our report, GAO acknowledged that gaps existed in its policy and procedures. GAO also outlined actions it had taken or initiated to address the gaps and strengthen its internal controls. Among the key actions GAO took in response to our audit was issuing its *Charge Card Management Plan* on April 22, 2015.[22] The plan is an important step toward closing the gaps and addressing other program weaknesses identified in our report. However, some of the narrative in the plan appears to be extracted from another government agency's plan and OMB A-123, Appendix B, and as a result does not provide sufficient detailed guidance to GAO staff regarding GAO-specific roles and responsibilities within its purchase card program. Further, the *Charge Card Management Plan* provides a description of improper payments, but does not describe the various roles and responsibilities of program participants in preventing, detecting, addressing, or reporting the various types of improper payments.

The *Charge Card Management Plan* acknowledges the need to mitigate the risks associated with GAO's purchase card program without describing how it will use the various reports that automated tools generate to identify potential high risk activities. For example, the plan does not provide guidance regarding the process for reviewing the potential problem transactions that automated tools identify, or how the review and resolution of those problem transactions need to be documented. In addition, although the plan contained statements regarding APC training requirements, it did not describe specific procedures, such as how or when the APC should become familiar with cardholder and approving official responsibilities, or to whom noncompliance with training requirements will be reported and when.

Trained and knowledgeable staff are a key control for ensuring that transactions are executed, documented, and reported consistent with management direction, including policy and procedures. As discussed in our report, GAO took actions during our audit to

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[22]*GAO,* Financial Management and Business Operations*, Charge Card Management Plan, Purchase Card Program* (January 1, 2015).

ensure that key members of its purchase card program, including the APC responsible for oversight and monitoring, had received refresher training. In addition, GAO instituted a process for staff to obtain refresher training online through the GSA. While this action helps automate recording and tracking of refresher training, GAO has not yet developed, implemented, or documented operating procedures for tracking and monitoring training compliance and ensuring that participants receive supplemental training regarding GAO-specific requirements and processes.

As the APC and alternate APC acknowledged, standard operating procedures still need to be developed and implemented to communicate to program participants the "who, what, when, where, how, and why" of internal control execution. These include the additional requirements that are outlined in the *Charge Card Management Plan*, but have not yet been incorporated into GAO's purchase card policy (GAO Order 0312.1).

Appendix I: Scope and Methodology

This report addresses the extent to which GAO maintained effective internal controls for preventing, detecting, and responding to potential misuse, waste, and abuse of GAO purchase cards. To achieve our audit objective, we reviewed GAO policy and procedures[1] to ensure that they cover relevant key requirements governing the process agencies are required to follow for initiating, processing, approving, and monitoring purchase card transactions. We identified these requirements by reviewing

- OMB Circular A-123, Appendix B,[2]

- GSA Purchase Card Guidance,[3]

- OMB's guidance on the Prompt Payment Act,[4]

- *Federal Acquisition Regulation* (FAR),[5] and

- *Standards for Internal Control in the Federal Government*.[6]

We performed tests of those control activities identified in GAO policy and procedures that we considered key in creating a system to provide reasonable assurance that transactions are properly authorized, supported, and recorded throughout the purchase card procurement process. The key internal control activities we tested are as follows:

- <u>Transaction approval</u> – Cardholders are required to use the purchase card for approved goods and services only. The office head or designee must provide approval of the need or requirement of the goods or services being purchased by signing off on the applicable GAO form or with an e-mail.

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[1]GAO purchase card policy and procedures consist of GAO *Order 0312.1, Government Accountability Office Purchase Card Program (September 2006); GAO's Desk Reference Manual: GAO Purchase Card Program (February 2011);* and the *Standard Operating Procedures for Purchase Card Monthly Audits*.

[2]OMB Circular No. A-123, Appendix B, *Improving the Management of Government Charge Card Programs* (January 15, 2009).

[3]GSA has issued multiple guidance for purchase card as part of its SmartPay® 2 program, including the *Managing GSA SmartPay® Purchase Card Use: A Plan for Success guidance* and SmartPay® 2 training documentation.

[4]See 5 C.F.R. § 1315.

[5]See 48 C.F.R. § 13.201.

[6]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

- Cardholder review of the Specially Designated Nationals and Blocked Persons List (SDN) and GSA's Excluded Parties List System (EPLS) – Cardholders are required to review the SDN and EPLS lists prior to making any purchase to ensure that the vendor was not identified as barred from doing business with the federal government.

- Budget representative verification of funds– Cardholders are required to obtain verification from a budget representative that sufficient funding is available to cover the purchase. The budget representatives provide documentation of their validation regarding the availability of funds by signing off on the applicable GAO form or via an e-mail reply to the cardholder.

- Cardholder update of the purchase card log– Cardholders are required to timely record purchase card transactions using the purchase card log.

- Cardholder retention of documentation to support the receipt of an item or service - Cardholders are required to retain receipt documentation.

- Cardholder procurement of allowable goods and services – The purchase card may be used only for allowable expenses.

- Compliance with the cardholder's authorized single purchase limit – Purchase card transactions should not exceed the dollar value threshold established by the FAR.

- Recording of the transaction to the appropriate fiscal year – Purchase card transactions should be charged to the fiscal year in which the obligation was incurred.

We selected a random sample of 59 transactions from a population of 3,166 purchase card transactions that occurred during fiscal year 2012 (October 1, 2011 through September 30, 2012) to assess the effectiveness of key GAO internal controls over its purchase card program. To ensure the reliability of GAO's purchase card transaction data, we reconciled GAO's list of cardholders and approving officials, and the population total dollar amount to the information maintained in the U.S. Bank system.[7] We provided the APC with the list of selected transactions and requested all available documentation

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[7]U.S. Bank is the commercial bank that GAO uses for its purchase card program.

supporting each selected transaction, including purchase card logs. We conducted follow-up meetings with the APC and the alternate APC to ensure the completeness of the documentation provided.

With our random sample, each transaction in the population had a nonzero probability of being included, and that probability could be computed for any transaction. Each sample element was subsequently weighted in the analysis to account statistically for all the transactions in the population, including those that were not selected. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent interval (i.e., plus or minus 10 percentage points). This is the interval that would contain the actual population value for 95 percent of the samples we could have drawn. As a result, we are 95 percent confident that each of the confidence intervals in this report includes the true values in the population. All percentage estimates from the sample of GAO's purchase card activity are presented along with their respective confidence interval in this report. In addition to transaction testing, we evaluated GAO's compliance with the purchase card training requirements and interviewed the APC and selected GAO cardholders and approving officials. We assessed compliance with the training requirements in July 2013 and re-evaluated the training documentation in November 2014 by comparing the list of active cardholders and approving officials to training certificates, and other training documentation provided by the APC.

We conducted this performance audit from March 2013 through May 2015[8] in accordance with generally accepted government auditing standards (GAGAS), except for the quality control and assurance standard requiring an external peer review of our audit organization every three years. This exception did not affect the planning or performance of our audit. The Office of Inspector General is scheduled for a peer review in fiscal year 2015. GAGAS requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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[8]Due to office priorities, we suspended our audit work from November 2013 until June 2014.

Appendix II: Comments from the U.S. Government Accountability Office

GAO ‎ U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Memorandum

Date: April 23, 2015

To: Inspector General – Adam Trzeciak

From: Director, Acquisition Management – Carmencita Jones

Subject: Draft Report on GAO's Purchase Card Program (OIG-15-2)

Thank you for the opportunity to review and comment on your draft report on GAO's purchase card program. We recognize, as your report mentions, that appropriate internal controls are essential to ensure that purchase cards are used effectively and efficiently. GAO has a comprehensive program in place to help ensure that purchases made with the card support agency needs and prevent and detect fraud, waste, and abuse. The program addresses key requirements of applicable laws and regulations and we have written into our procedures a Charge Card Management Plan that provides internal controls to further strengthen our purchase card program.

The report is primarily based on a sample of transactions from fiscal year 2012. While no improper transactions were found, OIG cites several areas where GAO's policies and procedures could be improved to provide better guidance to the Agency Program Coordinator (APC). However, since fiscal year 2012, we have added a staff member, and the new team has made many refinements to the program that specifically address the areas discussed in the draft report of which you may not be aware. The program, as currently implemented, covers risk management; program evaluation; needs determinations; and performance evaluation and feedback, as described below.

In addition, most of the transactions from fiscal year 2012 identified in your sample as missing documentation in the purchase card log are related to purchases for the GAO library (formally a part of Knowledge Services, which has been disbanded). Knowledge Services' library transactions were not required to utilize the standard purchase card log, but were entered into separate systems (Millennium library system and the Budget Tracking System (BTS)). Millennium contains documentation of the purchases and BTS was used for verification of funds. In fiscal year 2015, all cardholders who had been using BTS were moved into the Document Management system (DM) for documentation of funds availability.

Risk Management

GAO's APCs implemented the U.S. Bank's *Payment Analytics* monitoring tool as its electronic access system (EAS) in April 2014, providing the purchase card program 100 percent transaction monitoring 24 hours a day based on eighteen GAO risk parameters (i.e., split purchases, split transactions, weekend purchases, questionable merchant transactions, etc.). The APCs receive email notification of potential issues with purchases based on the risk parameters. The risk parameters are set by level: low, medium, or high, to ensure the APCs focus on reviewing activity that has the higher potential of being improper.

If activity triggers a risk notice, a case is opened in the U.S. Bank system allowing each APC to make determinations based on the name of the cardholder, merchant, amounts of transaction, and location. The APC investigates the case, determines if the purchase is compliant or non-compliant, and enters the results in the comments section of the electronic case file. The case is either closed or further action is taken, as appropriate. Since implemented, the system has triggered over 500 notices, most of which have already been investigated and closed without identifying any improper purchases. The tool has increased the effectiveness of the APCs' risk management and aligns GAO's program with OMB Circular A-123 Appendix B.

In addition, the APCs utilize U.S. Bank's on-line reporting tool to identify other potential high risk activities including:

Report Accounts:
- Amounts with High Credit Limits
- Accounts with Underutilized Credit Limits
- Active Accounts with Multiple Lost/Stolen Cards within a year
- MCC/MAT Codes Assigned to Card Holder Accounts
- MCC/MAT Codes Assigned to Managing Accounts

Transaction Activities:
- Declined
- Frequent Credit Transactions
- Mismatched Authorizations
- High Cardholder Spending by Merchant

We also have implemented a pilot project to use U.S. Bank's *Order Management* module for cardholders to record their log information for each transaction and to attach

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the documentation file to the transaction. This will allow all documents related to purchase card activity to be retained in one file on-line.

Program Evaluation

Acquisition Management's Charge Card Management Plan also contains requirements for annual purchase card reviews, which include compliance with training requirements and purchase limits. It also sets procedures to identify and address areas where improvements are needed, and how and when issues should be reported to GAO management. In addition, the GAO Desk Reference Manual provides guidance on the creation of the cardholders' log, and setting annual purchase limits. New to the process are monthly limits, which are set by the APC at the beginning of each fiscal year based on cardholders' annual purchases and monthly activity for the prior fiscal year. Other factors, such as increased or decreased workload, are also considered.

In your report you cite an example of a cardholder with a $700,000 annual limit but no purchases as an instance where the cardholder's limit was too high. That was not the case. Appropriately, this cardholder was a contracting officer in Acquisition Management with an unlimited warrant who served as the agency backup. However, with the realignment of responsibilities and the addition of staff with purchase card authority within Acquisition Management this person now serves as the approving official for purchase card activity and is no longer a cardholder.

In addition, as noted in your report, purchase card internal controls are independently evaluated by Financial Management and Business Operation's Program Analysis and Operations (PAO) office on an ongoing basis as part of PAO's annual internal control review of agency operations. PAO reviews procedures and supporting documentation; conducts sample testing; and identifies deficiencies and recommendations as appropriate, which are incorporated into the Remediation and Corrective Action Plan. PAO's FY 2014 evaluation found that, while there were some areas for improvement, the purchase card program was generally in compliance with OMB Circular A-123 principles.[1]

The Charge Card Management Plan also includes requirements for training of purchase cardholders. All cardholders receive training prior to being issued a purchase card. The training is documented through the signed Delegation of Procurement Authority (DPA). In addition, cardholders must take refresher training at least once every three years. We currently utilize the following to document and track training:

- U.S. Bank Access Online system – initial training and refresher training dates are recorded on cardholders' and approving officials' profiles;

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[1] As a legislative branch agency GAO is not required to use OMB circulars, but as a matter of policy generally assesses and reports on the effectiveness of internal controls in accordance with the principles of OMB Circular A-123.

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- GSA online allows us to print a report of GAO staff who have completed refresher training; and

- DM file number 7379038, Due Dates for Refresher Training.

Documentation of the initial training, as well as refresher training, for all cardholders is available for review.

Needs Determination

GAO Order 0312.1, GAO Purchase Card Program, includes requirements for the APC to periodically determine whether the agency has a need for all of its issued purchase cards. In addition, an annual needs assessment is incorporated into the Charge Card Management Plan. While this had been a manual process, the APCs now utilize U.S. Bank's usage reports and statistics to perform and document the assessment.

Performance Evaluation and Feedback

Acquisition Management has incorporated a process to inform each cardholder's Designated Performance Manager (DPM) about the cardholder's performance into the Charge Card Management Plan. While this had been done informally in the past, at the end of the performance cycle the APCs will provide an assessment to each cardholder's DPM on the cardholder's management of the card and performance of specified duties such as approving transactions in a timely manner, providing appropriate documentation for each transaction, and timely completion of the cardholder's log. In addition, the Charge Card Management Plan provides guidance on the types of activities that could result in suspension of a purchase card including those enumerated above.

In closing, we appreciate your work in this area and for identifying areas where we can better document our standard operating procedures. We would also be happy to provide your office with access and training on how use the U.S. Bank system's audit module. Please feel free to contact me if you have any questions.

cc: Karl Maschino, Chief Administrative Officer/Chief Financial Officer
William Anderson, Controller
Jacqueline Johnson, Acquisition Management
Ronald Fink, Acquisition Management
Adebiyi Adesina, FMBO
Evelyn Logue, OIG
Omar Torres, OIG

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Appendix III: Major Contributors to This Report

Key contributors to this report were Omar Torres, Evelyn Logue, and Cynthia Hogue.
Technical assistance was provided by Mark Ramage.

Appendix IV: Report Distribution

<u>U.S. Government Accountability Office</u>

Patricia Dalton – Chief Operating Officer

Karl Maschino – Chief Administrative Officer/Chief Financial Officer

Susan Poling – General Counsel

William Anderson – Controller/Deputy Chief Financial Officer

Adebiyi Adesina – Special Assistant to the Controller

<u>GAO Audit Advisory Committee Members</u>

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